

LBNL – PROCUREMENT STANDARD PRACTICES

Section: 15 Subcontracting By Negotiation

Subject: 15.6 Cost or Price Analysis

PURPOSE: This standard practice (SP) describes the Laboratory's requirements for the analysis of a subcontractor's proposed cost or price.

POLICY: Cost or price analysis techniques shall be used to determine that supplies and services are obtained from responsible sources at fair and reasonable prices.

SCOPE: This SP applies to all subcontracts.

Procedures for determining price reasonableness for small purchases are found at SP 13.1, *Small Purchases*.

DEFINITIONS:

Commercial Item / Commercial Service See SP 2.1 for definition of a Commercial Item and Commercial Service.

Cost Analysis Cost analysis means the review and evaluation of the separate cost elements and proposed profit of an offeror's or subcontractor's cost or pricing data or information other than cost or pricing data and the judgmental factors applied in projecting from the cost or pricing data to the estimated costs in order to form an opinion on the degree to which the offeror's proposed costs represent what the cost of the subcontract should be, assuming reasonable economy and efficiency.

Cost or Pricing Data See SP 15.5, *Cost or Pricing Data*

Cost Realism Analysis Cost realism analysis is the process of independently reviewing and evaluating specific elements of the offeror's proposed cost estimate to determine if the offeror's proposed costs are realistic for the work to be performed, reflect a clear understanding of the requirements, and are consistent with the various elements of the offeror's technical proposal. Cost realism analysis is necessary to protect the Laboratory and the Government from the risk associated with unrealistically high or low prices and estimated costs.

Established Catalog Prices Established catalog prices are prices, including discount prices, recorded in a catalog, price list, schedule or other verifiable and established record that (a) are regularly maintained by the manufacturer or supplier and (2) are published or otherwise available for customer inspection. The term includes data kept in electronic data bases.

LBNL – PROCUREMENT STANDARD PRACTICES

Section: 15 Subcontracting By Negotiation

Subject: 15.6 Cost or Price Analysis

Established Market Prices	Established market prices are current prices that are established in the course of ordinary and usual trade between buyers and sellers free to bargain and that can be substantiated from sources independent of the manufacturer or subcontractor.
Fair and Reasonable Price	A fair and reasonable price is one that does not exceed that which would be incurred by a prudent person in the conduct of competitive business and need not be the lowest available, but is the one that offers the best value to the Laboratory.
Information Other Than Cost or Pricing Data	Information other than cost or pricing data is any type of data that is not required to be certified in accordance with SP 15.5, <i>Cost or Pricing Data</i> , and that is necessary to determine the reasonableness or realism of an offeror's proposed price. Such information may include pricing, sales, or cost information, or cost or pricing data for which certification is determined inapplicable after submission.
Price	Price means the cost plus any fee or profit applicable to a subcontract type. It is also the monetary amount given, received, or asked for in exchange for goods or services.
Price Analysis	Price analysis is the process of examining a proposed price without evaluating its separate cost elements and proposed profit.
Technical Analysis	Technical analysis is the review and evaluation of an offeror's proposal by personnel having specialized knowledge, skills, experience, or capability in engineering, science, or management of the proposed quantities and kinds of materials, labor, processes, special tooling, facilities, and associated factors set forth in a proposal. Technical analysis is done to determine and report on the need for and reasonableness of the proposed resources, assuming reasonable economy and efficiency.
Technical Review	Technical review is the evaluation of an offeror's proposal to determine whether it meets the technical requirements of the solicitation.
Unbalanced Pricing	Unbalanced pricing means the price of one or more line items is significantly over or understated, as indicated by the application of cost or price analysis techniques, despite an acceptable total evaluated price.

LBNL – PROCUREMENT STANDARD PRACTICES

Section: 15 Subcontracting By Negotiation

Subject: 15.6 Cost or Price Analysis

PROCEDURES:

Determination of Reasonable Price

The determination that a price is fair and reasonable (also known as a price reasonableness determination) is a process involving the collection and analysis of information related to the proposed price.

The level of detail of the price reasonableness should be based on the complexity and circumstances of the acquisition. The analysis may entail, as necessary, a:

- Cost analysis, with a price analysis;
- Price analysis;
- Cost realism analysis; and/or a
- Technical analysis.

These analytical techniques may be used singly or in combination.

The following order of preference must generally be followed to determine the type of information required in order to determine the reasonableness of a subcontractor's price:

- No further information from the offeror if the price is based upon adequate price competition, except for that necessary to determine cost realism;
- Information other than cost or pricing data, such as:
 - Information related to prices (such as established catalog or market prices) that relies first on information available within the Laboratory or the government;
 - Information obtained from sources other than the offeror, and,
 - If necessary, information obtained from the offeror; or
 - Cost information that does not meet the definition of cost or pricing data; or
- Cost or pricing data.

In all cases, the determination of price reasonableness must be based upon price and/or cost analysis using no more information than is necessary.

LBNL – PROCUREMENT STANDARD PRACTICES

Section: 15 Subcontracting By Negotiation

Subject: 15.6 Cost or Price Analysis

Documentation of Determination

The determination that a price is fair and reasonable must be documented in every subcontract exceeding \$25,000. If cost or pricing data are not required in the case of any price negotiation exceeding \$550,000, the exemption used and the basis for using it must be documented in the subcontract file.

Requiring Pricing Information

The solicitation shall describe the specific pricing information that is required, and either require the offerors to submit the information in the offeror's own format or, if the procurement specialist decides it is essential, provide a form for the offeror's use.

The offerors shall be required to update the pricing information, as appropriate, during source selection and negotiations.

If adequate price competition is:

- Anticipated, the information may include cost or technical information necessary to determine the cost realism and adequacy of the offeror's proposal. Such information may consist of that necessary to adequately validate that the proposed costs are consistent with the technical proposal or cost breakdowns to help identify unrealistically priced proposals.
- Not anticipated and the offer is expected to be \$550,000 or less, the information may consist of data to permit the procurement specialist to determine price reasonableness, such as information to support an analysis of material costs or information on prices and quantities at which the offeror has previously sold the same or similar items.
- Not anticipated and the value of the award will exceed \$550,000, obtain either (1) information other than cost or pricing data or (2) cost or pricing data, as the circumstances dictate. (See SP 15.5, *Cost or Pricing Data*).

Exemption from Submission of Certified Cost or Pricing Data

For guidance regarding exemptions from submission of certified cost and pricing data, see SP 15.5.

Proposal Analysis Techniques

LBNL – PROCUREMENT STANDARD PRACTICES

Section: 15 Subcontracting By Negotiation

Subject: 15.6 Cost or Price Analysis

Price Analysis

Price analysis shall be used when cost or pricing data are not required, because an exception applies, or a transaction is below the cost or pricing threshold.

Price analysis is based on data obtained from sources other than the prospective subcontractor's proposal. The following techniques, among others, may be used for price analysis:

- Comparison with other proposed prices received in response to the solicitation;
- Comparison with previously proposed prices and subcontract prices for the same or similar items, if both the validity of the comparison and the reasonableness of the previous prices can be established.;
- Comparison with competitive published price lists, published market prices of commodities, similar indexes, and discount or rebate arrangements;
- Comparison with prices obtained through market research for the same or similar items; or
- Comparison with independent estimates of cost developed by knowledgeable personnel within the Laboratory.

The administrative expense of performing cost analysis for subcontracts below \$500,000 is usually prohibitive and price analysis is preferred. For small purchases, the guidelines in SP 13.1, *Small Purchase Procedures*, should be used for determining the reasonableness of a proposed price.

Technical Review — A technical review should be requested from and performed by the requester when assistance is required to determine whether a proposal meets specifications.

Source Selection When Factors Other Than Cost/Price are Primary

When cost/price is not the primary factor in the selection of a subcontractor, cost or pricing data are not required. In most cases, the determination that the price is fair and reasonable and that costs are realistic may be determined through a cost or price analysis using information other than cost or pricing data.

LBNL – PROCUREMENT STANDARD PRACTICES

Section: 15 Subcontracting By Negotiation

Subject: 15.6 Cost or Price Analysis

Cost Analysis

A cost analysis must be performed when the proposed price is based upon cost or pricing data and may be performed when the proposed price is based on information other than cost or pricing data. A price analysis must always be performed with a cost analysis, except for cost-reimbursement subcontract with educational institutions, to verify that the overall price offered is fair and reasonable.

To perform a cost analysis, the procurement specialist must gather sufficient substantiating data to analyze each cost element for the subcontractor's proposal. The following data should be obtained:

- Direct labor and indirect cost rate verification, including advice as to the existence of any Cost Accounting Standards violations that could affect the proposal date, and the adequacy of the subcontractor's cost accounting system. A recent audit report for another subcontract with the same subcontractor, either from the cognizant audit agency or the laboratory, is acceptable.
- Data to substantiate direct cost other than labor, such as materials or travel as applicable, and the basis against which the laboratory will evaluate those costs (e.g., for travel: fare verification available from LBNL Travel Department or common internet websites and Federal Travel Regulation per diem rates; material; subcontractor vendor quotes; recent prior audit data on similar items; and recent prior LBNL purchases of similar items).

Cost Realism

Cost realism analyses shall be performed by the procurement specialist on cost-reimbursement subcontracts to determine the probable cost of performance for each offeror. The probable cost is determined by adjusting each offeror's proposed cost, and fee when appropriate, to reflect any additions or reductions in cost elements to realistic levels based on the results of the cost realism analysis.

The probable cost may differ from the proposed cost and should reflect the Laboratory's best estimate of the cost of the subcontract that is most likely to result for an offeror's proposal. Probable costs of offerors' proposals should be used for evaluation purposes to determine the best value and as the basis for determining profit/fee objectives.

LBNL – PROCUREMENT STANDARD PRACTICES

Section: 15 Subcontracting By Negotiation

Subject: 15.6 Cost or Price Analysis

Proposals must be evaluated using the criteria in the solicitation and the offered prices, without any cost realism analysis adjustment. However, a cost realism analysis of an offeror's proposed costs may reveal that discussions are required for some or all of the cost elements. The results of the analysis may also be used in performance risk assessments and responsibility determinations.

Cost realism analyses may also be used on competitive fixed-price incentive subcontracts or, in exceptional cases, on other competitive fixed-price-type subcontracts when new requirements may not be fully understood by competing offerors, there are quality concerns, or past experience indicates that proposed costs have resulted in quality or service shortfalls.

The following techniques may be used, as appropriate, to perform a cost realism.

- Verification of cost or pricing data and evaluation of cost elements, including:
 - The necessity for and reasonableness of proposed costs, including allowances for contingencies;
 - Projection of the offeror's cost trends based on current and historical cost or pricing data;
 - A technical evaluation of the estimated labor, material, tooling, and other factors; and
 - The application of audited or negotiated indirect cost rates, labor rates, cost of money, or other factors;
- Comparison of costs proposed by the offeror for individual cost elements with:
 - Actual costs previously incurred by the offeror;
 - Previous cost estimates from the offeror or from other offerors for the same or similar items;
 - Other cost estimates received in response to the solicitation.
 - Independent cost estimates by technical personnel;

LBNL – PROCUREMENT STANDARD PRACTICES

Section: 15 Subcontracting By Negotiation

Subject: 15.6 Cost or Price Analysis

- Forecasts or planned expenditures; or
- The effects of past practices on future costs.
- Verification that the offeror's cost submissions are in accordance with the cost principles of FAR Part 31 and DEAR Part 931 and applicable Cost Accounting Standards, as necessary (see SP 30.1, *Cost Accounting Standards*).

Technical Analysis

A technical analysis must be performed to support a complete cost analysis. The analysis should include an in-depth assessment of the qualitative and quantitative aspects of the proposal, including proposed kinds and quantities of labor, materials, processes, special tooling, facilities, and associated factors set forth in the proposal. The depth of the analysis and supporting documentation should be consistent with the complexity, size, and uniqueness of the proposal. (A technical analysis that does not meet the requirements of this SP should be returned to the requester for rework.) The technical analysis must be included in the subcontract file.

Unbalanced Pricing Analysis

Unbalanced pricing exists when, despite an acceptable total evaluated price, the price of one or more items is significantly over or understated, as indicated by the cost or price analysis.

Unbalanced pricing may increase performance risk and could result in payment of unreasonably high prices. The greatest risks associated with unbalanced pricing occur when:

- Startup work, mobilization, first articles, or first article testing are separate line items;
- Base quantities and option quantities are separate line items; or

The evaluated price is the aggregate of estimated quantities to be ordered under separate line items of an indefinite-delivery subcontract.

All offers with separately priced items shall be analyzed to determine if the prices are unbalanced. If the cost or price analysis indicates that an offer is unbalanced, the procurement specialist shall:

- Consider the risks associated with the unbalanced pricing in making the source selection decision; and
- Consider whether award of the subcontract will result in paying unreasonably high prices for performance.

LBNL – PROCUREMENT STANDARD PRACTICES

Section: 15 Subcontracting By Negotiation

Subject: 15.6 Cost or Price Analysis

An offer may be rejected if the procurement specialist determines that the lack of balance poses an unacceptable risk.

Unit Price Analysis

Unit prices should reflect the intrinsic value of an item or service and be in proportion to an item's base cost (e.g., manufacturing or acquisition costs). In a solicitation for non-commercial items or services, the procurement specialist may require that offerors identify in their proposals those items of supply that they will not manufacture or to which they will not contribute significant value, unless adequate price competition or catalog or market prices are expected. Such information shall be used to determine whether the intrinsic value of any unit-priced items or services has been distorted through application of overhead and whether such items should be considered for breakout.

Pre-Award Pricing Support

Pre-Award Audits

A pre-award audit must be obtained for all subcontracts exceeding \$5 million in which the price, including initial prices, estimated costs of cost-reimbursement subcontracts, interim and final price redetermination, and target and settlement of incentive subcontracts, will be based on cost or pricing data. A pre-award audit should be considered for subcontracts less than \$5 million when the available pricing information does not fully support the reasonableness of the proposed costs. (Purchases under Federal Supply Schedule contracts do not require pre-award audits.)

Field Pricing Support

The threshold for requesting field pricing support from a government agency is \$5 million. Such support need not be requested if there is adequate data to support the reasonableness of the offeror's proposed price. Three types of field pricing support are available:

- Complete — Includes cost/price analysis, technical reviews, and an audit report by the cognizant audit agency;
- Audit Plus Technical — The audit report or other pricing input incorporates the results of a technical review by the cognizant audit agency; and
- Audit or Other Pricing Input — The report from the cognizant audit agency will be marked as lacking a technical review.

LBNL – PROCUREMENT STANDARD PRACTICES

Section: 15 Subcontracting By Negotiation

Subject: 15.6 Cost or Price Analysis

Price Negotiation Techniques

Prenegotiation Objectives

Prenegotiation objectives should be established using all sources of input, including technical reviews, audit reports, etc. Significant variations from the sources of input must be clearly documented in the subcontract file. Prenegotiation objectives should:

- Eliminate extraneous costs;
- Base the negotiated price on cost or pricing data that are accurate, complete, and current; and
- Exclude items unallowable by FAR and DEAR cost principles.

Negotiations

Negotiations with the offeror are undertaken using information from the pre-award audit, if applicable; the procurement specialist's independent cost or price analysis; the cost/price analyst's report; the technical analysis; and the procurement specialist's profit/fee objective, if applicable. (See SP 15.10, *Profit/Fee Objective*.)

While there may be nothing inherently incorrect about relying upon an offeror's proposal, such acceptance must be based upon a thorough understanding of the rationale and methodology of the estimate and should not preclude the exploration and presentation by the procurement specialist of other methods of arriving at an estimate.

The objective of negotiation is to reach a fair and reasonable price. While the offeror may disagree with the procurement specialist's position in whole or in part, it is the procurement specialist's responsibility to negotiate to the best of his or her ability. It is an inherent aspect of negotiations that compromises may have to be made.

Cost or Pricing Data

For procedures for obtaining certified cost or pricing data or allowing an exemption, see SP 15.5, *Cost or Pricing Data*.

RESPONSIBILITIES:

Procurement Specialist

The procurement specialist must:

- Ensure that requests for cost/price analysis or cost/technical assistance clearly describes the assistance needed;

LBNL – PROCUREMENT STANDARD PRACTICES

Section: 15 Subcontracting By Negotiation

Subject: 15.6 Cost or Price Analysis

- Determine and document the reasonableness of an offeror's cost or price using either price or cost analysis techniques, or both;
- Ensure the level of analysis is commensurate with the value of the subcontract;
- Require the offeror to provide any necessary supporting data and information absent from the proposal and required for performing cost or price analysis;
- Ensure that a cost analysis is performed whenever cost or pricing data is required;
- When cost analysis is used, perform a complete analysis of the offeror's cost proposal using the recommendations of the field pricing support personnel or the cost/price analyst, if used, and the technical analysis before beginning negotiations;
- Establish prenegotiation objectives;
- Obtain accurate, complete, and current cost or price data with supporting attachments (see SP 15.5, *Cost or Pricing Data*) for subcontracts that do not meet an exemption;
- Obtain information other than cost or pricing data as appropriate;
- Obtain a pre-award audit, when required;
- Negotiate a fair and reasonable price; and,
- Document the reasonableness of the negotiated price.

Requester

When necessary, the requester must perform a technical review or analysis of proposals to determine and report on the need for and reasonableness of the proposed resources assuming reasonable economy and efficiency.

REFERENCES:

Prime Contract Clause I.13 – Subcontractor Cost or Pricing Data
Prime Contract Clause I.14 – Subcontractor Cost of Pricing Data - Modifications
Prime Contract Clause I.114 – Contractor Purchasing System